

TENNESSEE EDUCATION LOTTERY CORPORATION
Funding Board Presentation
December 12, 2007

ESTIMATION OF
TOTAL AND NET LOTTERY PROCEEDS
FOR FISCAL YEARS ENDING
JUNE 30, 2008 and 2009

**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS
FOR FISCAL YEARS ENDING JUNE 30, 2008 and 2009
(In Millions)**

SUMMARY INFORMATION FOR FISCAL YEAR 2008:

As of November 30, 2007

| | |
|--------------------|----------|
| Gross Ticket Sales | \$ 430.4 |
| Weekly Average | \$ 19.7 |
| Total Proceeds | \$ 403.8 |

| | |
|---------------------------------------|-----------------|
| Lottery for Education Proceeds | \$ 111.6 |
| % of Total Proceeds | 28% |

| | |
|--------------------------------------|---------------|
| After-School Program Proceeds | \$ 2.9 |
|--------------------------------------|---------------|

| | |
|-------------------------------|-----------------|
| Total Lottery Proceeds | \$ 114.5 |
|-------------------------------|-----------------|

Projected for Fiscal Year Ending June 30, 2008

| | <u>May 2007</u> | <u>Current</u> |
|---------------------------------------|----------------------------|-----------------------|
| Gross Ticket Sales | \$1,101.2 - \$1,106.1 | \$1,097.3 |
| Total Proceeds | \$1,030.4 - \$1,035.0 | \$1,028.8 |
| Lottery for Education Proceeds | \$ 278.2 - \$ 280.1 | \$ 280.1 |
| % of Total Proceeds | 27 % | 27 % |
| After-School Programs Proceeds | \$ 12.5 | \$ 12.5 |
| Total Net Lottery Proceeds | \$ 290.7 - \$292.6 | \$ 292.6 |

SUMMARY INFORMATION FOR FISCAL YEAR 2009 (in Millions)

| | <u>Estimates</u> |
|---------------------------------------|-------------------------|
| Gross Ticket Sales | \$ 1,141.0 |
| Total Proceeds | \$ 1,070.0 |
| Lottery for Education Proceeds | \$ 288.6 |
| % of Total Proceeds | 27 % |
| After-School Programs Proceeds | \$ 12.5 |
| Total Net Lottery Proceeds | \$ 301.1 |

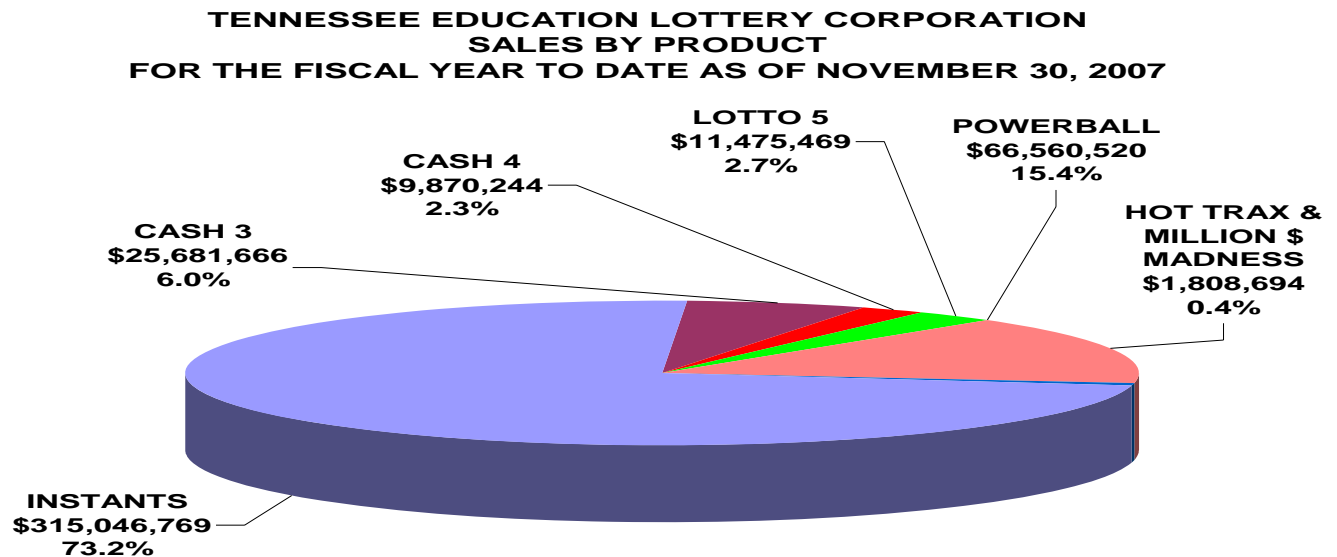
ADDITIONAL INFORMATION:

Total Sales:

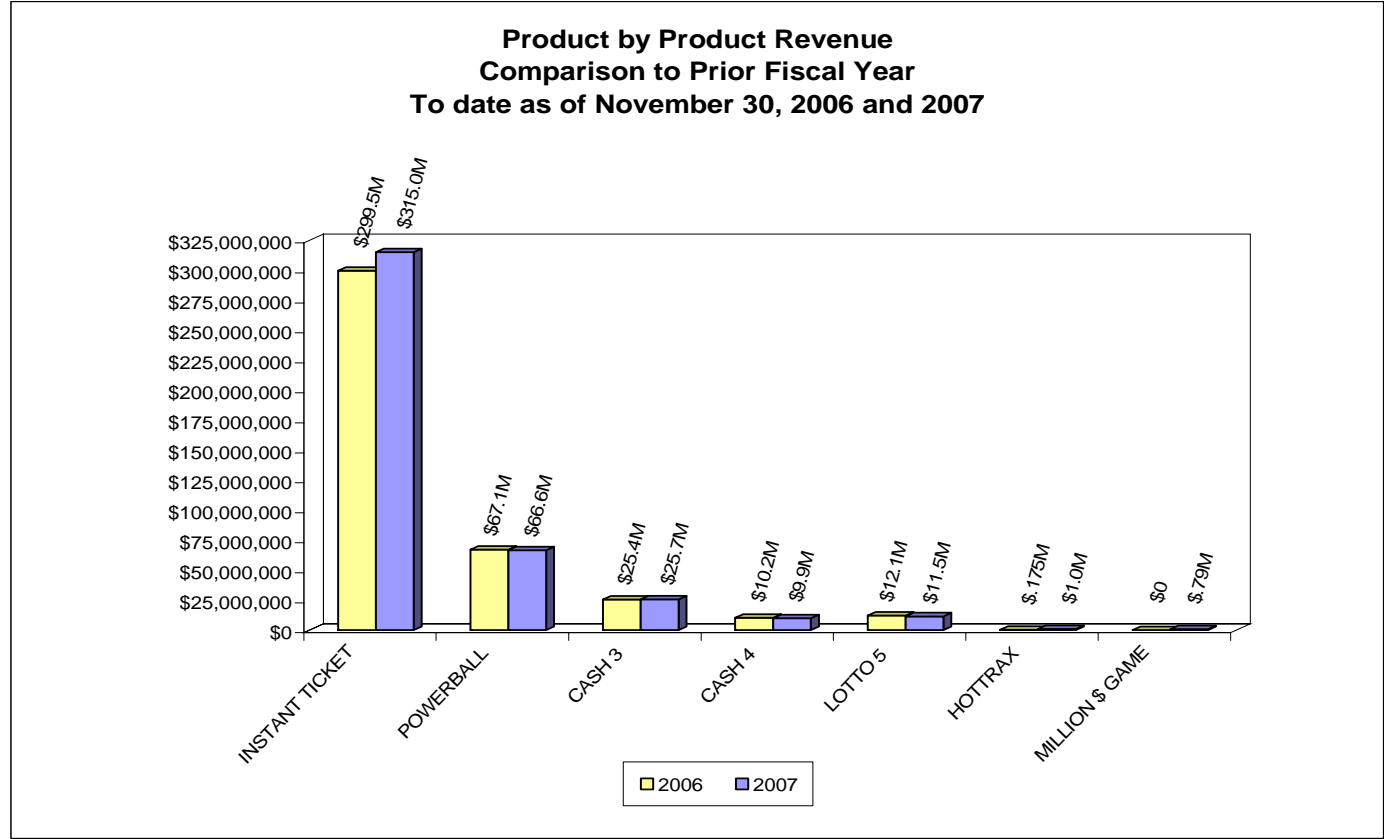
- **\$430.4 Million as of November 30, 2007**
Weekly Average of \$19.7 Million
- **\$414.5 Million as of November 30, 2006**
Weekly Average of \$18.9 Million
- **\$15.9 Million Increase for FY08 compared to FY07**
Weekly Average increase of \$.8 Million

Sales by Product as of November 30, 2007:

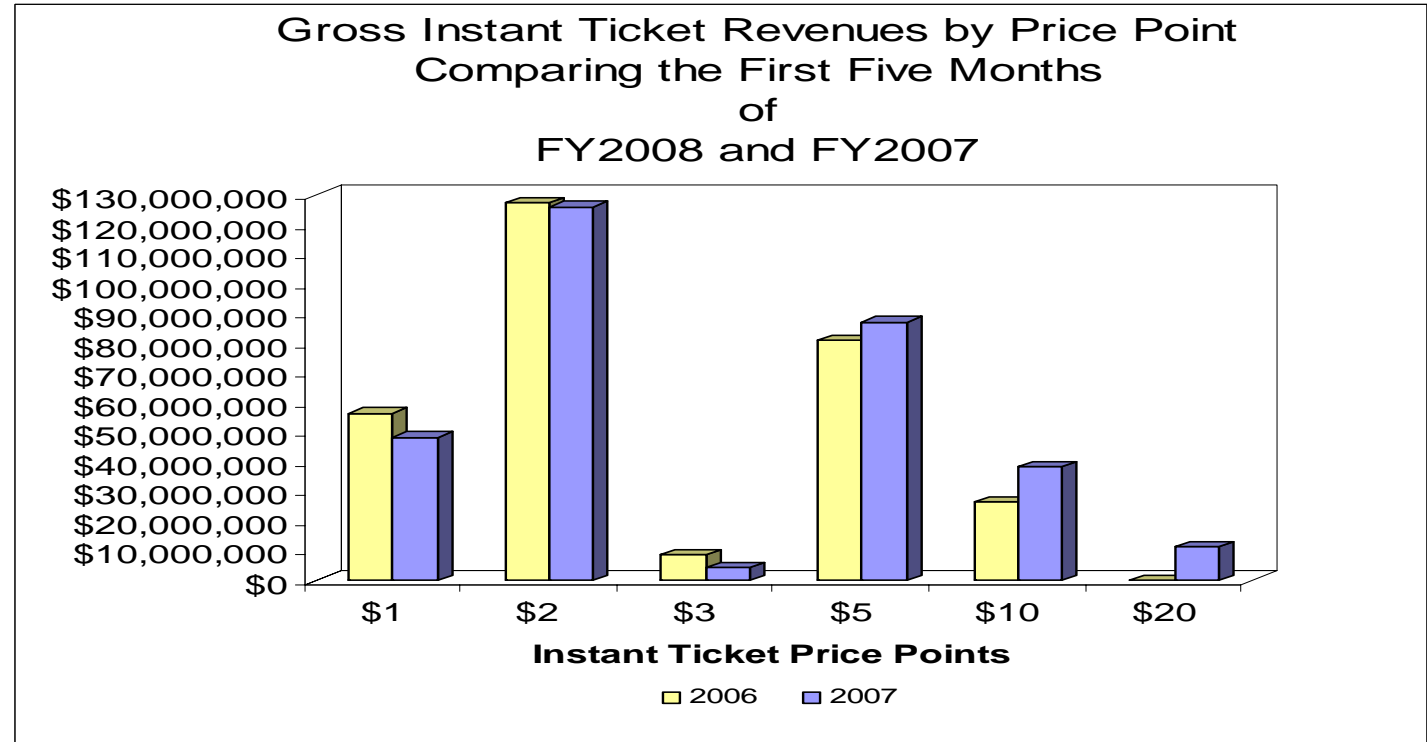
| <u>Game</u> | <u>Sales</u> | <u>% of Total</u> |
|------------------------------|------------------|-------------------|
| Instant Games | \$ 315.0 million | 73.2 % |
| Powerball | \$ 66.6 million | 15.4 % |
| CASH 3 | \$ 25.7 million | 6.0 % |
| CASH 4 | \$ 9.9 million | 2.3 % |
| LOTTO 5 | \$ 11.5 million | 2.7 % |
| Hottrax & Million \$ Madness | \$ 1.8 million | .4 % |



Product by Product Comparison FY08 to FY07 (First Five Months)



Instant Games by Price Point



Lottery for Education Proceeds

- \$111.6 million as of 11/30/07 27 % of Total Proceeds
- \$102.9 million as of 11/30/06 27 % of Total Proceeds
- **\$ 8.7 million increase, or 8.7% Growth to Date**

After-School Program Proceeds

- Represents actual/realized unclaimed monies
- \$2.9 million as of 11/30/07
- \$2.8 million as of 11/30/06

FICAL YEAR 2008 ESTIMATES

| | |
|------------------------|--|
| Current Year | \$1.097 billion |
| Estimated Range | \$1.086 billion – 1.108 billion |

- | | |
|---|------------------------------|
| ➤ Instant Games | 72 % of Gross Sales Estimate |
| ➤ Powerball | 15 % of Gross Sales Estimate |
| ➤ CASH3 and CASH4 | 7 % of Gross Sales Estimate |
| ➤ LOTTO5 | 2 % of Gross Sales Estimate |
| ➤ Lotto Plus, Million Dollar Madness and Hottrax Champions | 4 % of Gross Sales Estimate |

Lottery for Education Proceeds

| | |
|-------------------------|--|
| Current Estimate | \$ 280.1 million |
| Estimated Range | \$277.4 million – 283.0 million |

- Represents 27 % of estimated total lottery proceeds
- Represents 3 % projected growth over the prior fiscal year

After-School Program Proceeds

| | |
|-------------------------|---------------------------------------|
| Current Estimate | \$12.5 million |
| Estimated Range | \$ 12.3 million – 12.5 million |

- Represents actual/realized unclaimed monies expected from closed instant games and expired online draw periods.

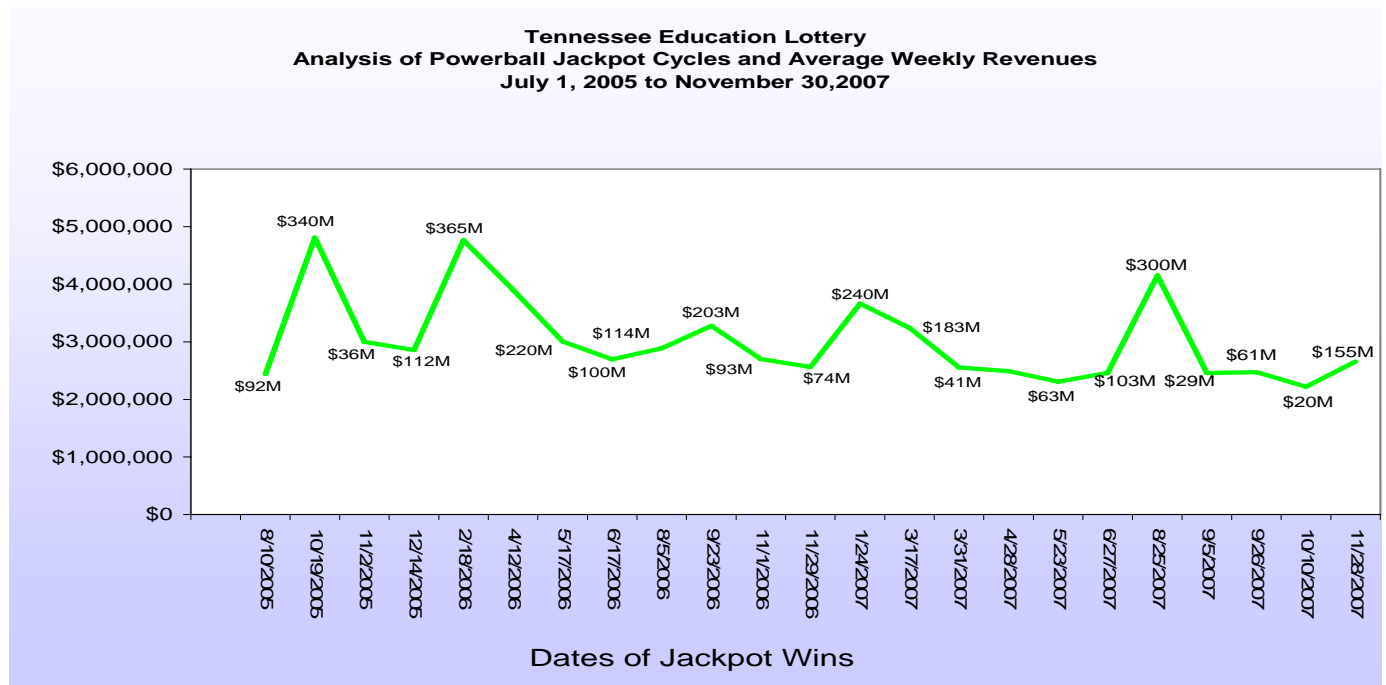
Significant Factors Impacting Estimates

Instant Games

- Sales as of November 30, 2007 averaged \$ 14.4 million a week. This represents growth of 5% over the first five months of Fiscal Year 2007.
- We expect Instant Ticket sales to average \$15.5 million per week for remainder of Fiscal Year 2008.
- Historically, average weekly sales have increased during the last seven months versus the first five months due to seasonality.
- Average Prize Payout of 65 % for new game introductions remains consistent from Fiscal Year 2007.
- TEL's *Play it Again* second chance program continues to extend the sale period for new Instant Tickets.

Powerball

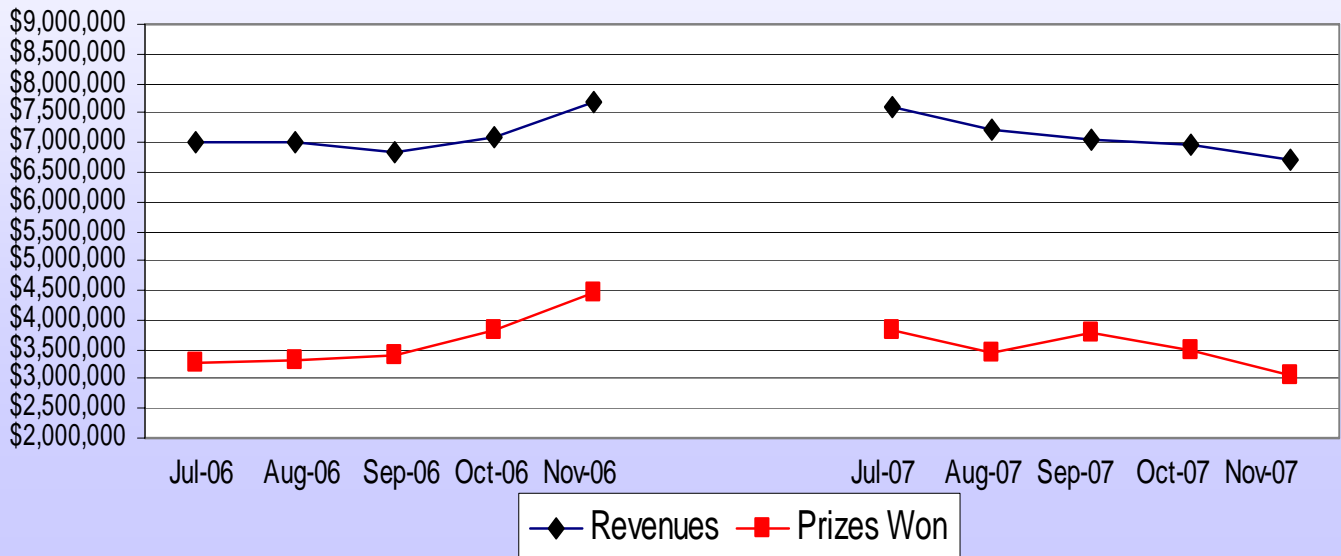
- Powerball sales are significantly impacted by the size of jackpots.
- Game design supports two (2) jackpots in \$150-200 million range and one (1) in \$250+ million range.
- Game design expects an average jackpot cycle to \$97 million.
- As of November 30, 2007, one (1) jackpot cycle has exceeded \$300 million compared to two (2) jackpot cycles of a little over \$200 million in the prior year.
- Projected Fiscal Year 2008 revenues are based upon the expectation of two (2) jackpots in the \$150 - \$200 million range to occur in the remaining seven months.



CASH3 and CASH4

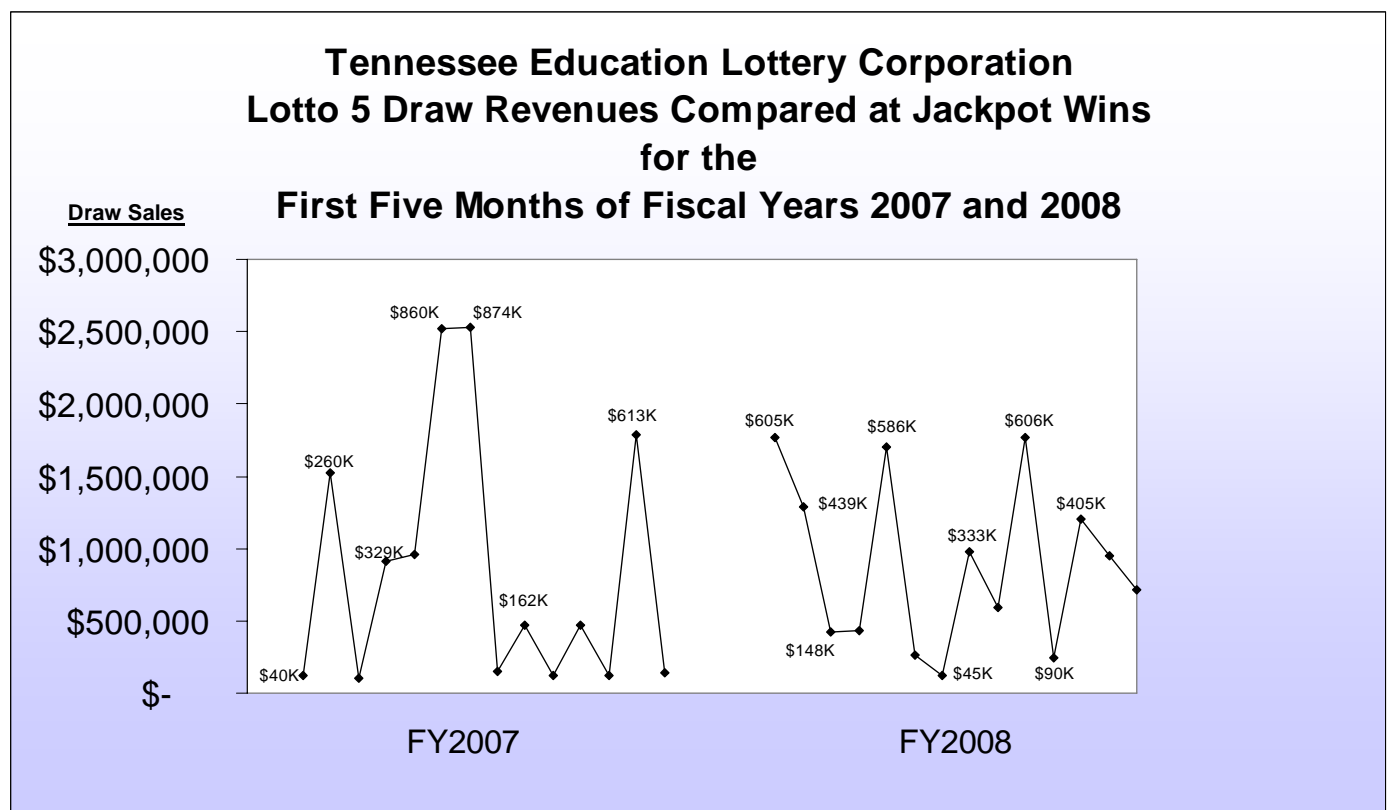
- As of November 30, 2007, Cash 3 sales are up approximately 1% and Cash 4 sales are constant compared to the prior fiscal year.
- Historically, Cash 3 and Cash 4 sales are impacted by prizes won by players. As indicated in the chart below, draw sales tend to trend in parallel to prizes won. For the first five (5) months of Fiscal Year 2008, prize payout averaged 49.1%, compared to 51.2% during the first five (5) months of Fiscal Year 2007.
- Total sales for Fiscal Year 2008 are projected based upon current year trend with no expected reduction from the use of computerized draws for the remainder of the Fiscal Year.

Tennessee Education Lottery Corporation Comparing Cash 3 and Cash 4 Revenues to Prizes Won for the First Five Months of Fiscal Years 2007 and 2008



Lotto 5

- Lotto 5 sales are impacted by the size of jackpots.
- Lotto 5 sales are trending approximately 5% lower when compared to the same period in Fiscal Year 2007.
- As of November 30, 2007, two (2) jackpots have exceeded \$500,000 in Fiscal Year 2008 compared to three (3) large jackpots exceeding \$600,000 in Fiscal Year 2007.
- Sales as of November 30, 2007 averaged \$.53 million a week and we project the same level of sales for remainder of Fiscal Year 2008.
- An enhancement to the Lotto 5 game is planned for the third quarter of Fiscal Year 2008 to increase the number of prize winners, providing more winning experiences in this game.



HotTrax Champions

- Limited retailer base with specific trade style (social spaces) continue to hinder the sales for our HotTrax Champions monitor-based online game.

Million \$ Game

- \$10 price point.
- 800,000 tickets (plays) available.
- Tickets started selling October 30, 2007.
- Drawing to be held on January 22, 2008.
- The grand prizes are four \$1 million prizes.
- A total of 584 prizes will be awarded.
- We will hold early bird drawings for the first seven weeks of sales. These drawings are to encourage players to buy tickets early to increase chances of winning a prize.
- Early bird drawings will consist of one (1) \$1,000 prize and nine (9) \$100 prizes.

Lotto Plus

- Planned introduction of a six digit online game.
- Game sales planned to start mid to late February 2008.
- The game will be a jackpot style game played only in Tennessee.
- Jackpots will start at \$1 million and grow by a minimum of \$100,000 each time the jackpot rolls.
- Sales are estimated to average approximately \$.5 million per week.

Direct Gaming-Related Expenses

- Aggregate Prize Expense for Instant Games estimated at **65.0%**
- Aggregate Prize Expense for Online Games estimated at **50.2%**
- Retailer sales commissions are **6.5%** of gross sales
- Gaming vendors' fees are based on a percentage of sales per terms of each contract. The combined percentages are approximately 2.3% on instant tickets and 1.2% for online games.

Non-Direct Expenses

- Advertising is estimated at \$14.9 million, or 1.5% of gross sales
- Other Gaming estimated at \$5.1 million, or 0.5% of gross sales
- General and Administrative estimated at \$16.4 million, or 1.5% of gross sales

FISCAL YEAR 2009 ESTIMATES

Projected FY08 Growth compared to FY07 Actual

- 3.7 % for Gross Sales
- 3.0 % for Lottery for Education Proceeds
- 1.5 % for After School Program Proceeds

FY 09 Estimates Based upon Industry and Historical Results

- Gross Sales growth of 4 % based on 10-year industry average
- Lottery for Education proceeds of 3% growth is based upon 10-year industry average
- After School Proceeds based upon historical experience for Tennessee. The prior periods' unclaimed experience represents 2 % of available prizes.